

### How well did you understand Chapter 1?

Put true or next to the following main ideas from Chapter 1. You may use your notes.  
Rewrite the false statements to make them true.

1. \_\_\_\_\_ Economic analysis can help you make good decisions in your personal life, on your job, and in the political decisions you face.
2. \_\_\_\_\_ Economics is the study of how people allocate their unlimited resources in an attempt to satisfy their limited wants.
3. \_\_\_\_\_ Resources are the things that are used to satisfy people's wants.
4. \_\_\_\_\_ Macroeconomics studies the decision-making undertaken by individuals, households, and firms.
5. \_\_\_\_\_ The study of inflation, unemployment, and economic growth is part of the realm of Macroeconomics.
6. \_\_\_\_\_ According to Adam Smith in his book The Wealth of Nations people are motivated by rational self-interest.
7. \_\_\_\_\_ Economics is similar to psychology and sociology because it is a social science that focuses on individual and group thought processes.
8. \_\_\_\_\_ People react to incentives, or rewards, by weighing costs and benefits related to a specific decision.
9. \_\_\_\_\_ According to your text self interest is always measured by dollars and sense.
10. \_\_\_\_\_ Economics is a social science that makes use of models and theories.
11. \_\_\_\_\_ Economic models are simplifications of reality that correctly reflect the essential relationships that occur in society.
12. \_\_\_\_\_ Ceteris paribus means that all other things being equal, we can predict what will happen in an economic model.
13. \_\_\_\_\_ We judge whether a model is valid solely by looking at its assumptions.
14. \_\_\_\_\_ According to your text economics uses a normative, value free approach to inquiry.
15. \_\_\_\_\_ According to your text, even economics authors introduce their own values and opinions in their choice of topics and in their analysis of economic issues.